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SUBJECT: COUNCIL OF REPS FINANCE COMMITTEE ON 2009 BUDGET

REF: A. A. 2008 BAGHDAD 4077  
[1](#)B. B. 2008 BAGHDAD 1843

Classified By: Economic Counselor Michael Dodman for reasons 1.4(b) and (d)

[1](#)1. (C) Summary: The Iraqi Council of Representatives (COR) hopes to pass the FY2009 budget "soon," but there is concern that cuts in the capital budget will affect Iraq's future. Falling oil revenues and uncertain oil markets highlight the GOI's overdependence on a single source of income, but the COR understands that it must continue investing in the reconstruction of Iraq. The Council of Ministers' failure to address underlying political issues means that funding for both capital and operating expenses in the provinces will be allocated according to their percentage of the population. The GOI is sharing more information with the COR on budget issues, and the Finance Committee hopes to increase ministerial accountability in 2009 with televised hearings on each Minister's budget execution performance. End summary.

[1](#)2. (C) In a January 20 meeting with Econoff, COR Finance Committee member Ala'a Alsadon (IIP, Sunni) said her committee was reviewing the budget and would make recommendations for amendments. According to the Iraqi Constitution, Alsadon said, the COR can reduce the overall size of the Council of Minister's submitted budget proposal, transfer funds allocated in the budget proposal from one project or priority to another, and send the budget proposal back to the Council of Ministers with a request to increase its size. "We hope to pass this budget very soon," she added. (Note: As of January 26 the 2009 draft budget was approved by the Council of Ministers, who marginally raised the budget and added an article that will distribute operational and investment portions of the budget directly to the provinces. This will be reported further in septel. End note.)

Worry About Iraq's Revenue Stream  
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[1](#)3. (C) According to Alsadon, COR members are very concerned about Iraq's ability to meet its budgeted needs and agreed that the 2009 budget's assumptions that Iraq would earn USD 50 per barrel and export 2 million barrels per day were too optimistic. The Finance Committee's assumption is that Iraq would only average USD 40 per barrel and export an average of no more than the current level of 1.85 million barrels per day.

[1](#)4. (C) There is no credibility in the Ministry of Finance's expectation that non-oil related revenue will grow in 2009, said Finance Committee Senior Advisor Talib 'Ayfan. "Iraq's non-oil income is basically non-existent." There is no real private sector to tax, no one is paying taxes, and we do not expect the state-owned enterprises to be profitable, he added. Iraq will have to raise tariffs on imports to at least 10 percent, he added. "We have to find new sources of revenue for the government," he said.

Budget Priorities and Deficit Spending

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¶15. (C) Despite the budget deficit, Alsadon and 'Ayfan said that the Finance Committee members agreed that Iraq needed to spend more money on capital expenditures. "The investment budget has been cut by 15 percent from last year," said 'Ayfan. "This is too much. If we don't spend money on building the country, we will have no way to grow. Private sector growth depends on having functioning infrastructure, like electricity, water and roads." The COR, therefore, understands the need for deficit spending, he added.

¶16. (C) Government salaries "have not been touched, and will not be reduced in this election year" said Alsadon. Salaries will not, however, be increased further in 2009 and the only new hiring allowed will be for unfilled slots that Ministries have already budgeted for. The size of the civil service will not increase.

#### Political Problems Unresolved

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¶17. (C) The Council of Ministers did not address the underlying political problems on how to allocate funds to the provinces. Given the competing political parties and lack of clearly-defined guidance from the Council of Ministers, there is no other "fair way" to divvy up the funds, Alsadon said. As a result, funds allocated for investment projects in provinces will be distributed by the Ministry of Finance to the appropriate implementing ministries based on the population of the province.

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¶18. (C) Operating budgets for non-KRG provincial governments will, likewise, likely be allocated by population. This is not an ideal situation, said Alsadon, since each province's situation and needs are different. Certain areas, like Anbar Province, have greater needs for education and healthcare than other provinces. "Iraq does not have any measure of minimum health or education standards, and we don't know the situation of the provinces, so what can we do?" she asked.

#### Holding the Government Accountable

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¶19. (C) Alsadon said that the Finance Committee continues to work on holding the government accountable for its spending. She said that the Finance Minister's January 17 appearance before the COR to answer questions on the budget proposal was an important improvement. The previous two budgets had been submitted to the COR "with no explanation." "This year, the Ministry of Finance is giving much more information," she said.

¶110. (C) Alsadon also said that the Ministry of Finance (MoF) has invited the COR's Finance Committee to be more active and involved in its budget processes. More information is coming from the MoF to the COR, and she, as a COR member, attended the October 2008 MoF-IMF Stand-By Arrangement discussions in Amman. This is a good first step, she said.

¶111. (C) Work remains to be done, however. The Finance Committee has asked each ministry to outline spending objectives and strategic plans for FY2009 and FY2010, as well as FY2008 budget execution accomplishments and failures. The ministries have not yet responded, she said. The COR would not press the ministries for responses this year given the already-delayed budget process.

¶112. (C) In 2009 the Finance Committee plans to hold open and televised hearings where each minister would be called to the COR. At these hearings, the Board of Supreme Audit would read its reports on the ministry, and then COR members would be able to ask the minister questions. "We will hold every

minister accountable this year," Alsadon said.  
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